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Paraguay

Cotton and Products

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Report Highlights:
Paraguayan cotton exports in marketing year (MY) 2005 are forecast at 80,000 metric tons (MT), higher than the previous year. China is expected to remain the country's major market, while neighboring countries and the Far East will take the balance. Production is projected up at 92,000 MT. Farmers expect better yields and somewhat stronger prices.

Includes PSD Changes: Yes
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SECTION I. SITUATION AND OUTLOOK

Paraguayan cotton exports for marketing year (MY) 2005 are forecast at 80,000 metric tons (MT), higher than the past crop as result of larger output. China, which has become the largest market for Paraguayan cotton, is expected to continue to be so. Brazil, which together with Argentina took over 85 percent of exports until 2000, reduced Paraguayan purchases significantly as result of their large production increase. Other markets are expected to be countries within the region (Bolivia, Uruguay, Venezuela) and in the Far East (Indonesia, Thailand, Vietnam, etc.).

Paraguay's cotton domestic consumption is very small and remains quite stable, in a range between 5-7,000 tons a year. The balance of the crop is always exported as lint. Exports in MY2004 are estimated at 75,000 MT, of which 49,000 MT were shipped during August 2004 and April 2005 and an additional 26,000 MT are expected to be shipped in the last three months of the marketing year.

The country is known as a good and stable exporter, with many clients familiar with its cotton throughout the world. Despite some problems with contamination (with polypropylene and jute), FOB prices are somewhat comparable to those of Brazil. Both the government and private sector (there are rumors indicating that a decree or law will be passed to make compulsory the use of cotton bags for harvesting) are battling against this problem, which plays against local exports.

Planted area for MY2005 is projected at 250,000 hectares. Although some sources indicate that the goal will be somewhat higher, reality usually proves that in the end fewer hectares are planted. The more than 100,000 small producers, who on average plant one hectare, saw a regular MY2004 crop, which yielded low but received higher prices than expected as result of a smaller overall output than projected and a bullish demand. The government provided free seed, while the cost of insecticides, which were the only input they had to pay (although some did not), was approximately US$35 per hectare. The family does all soil preparation, planting, weed control, and harvesting manually. Therefore, at average yields and prices, producers were able to put in their pockets about US$220 per hectare (assuming they paid back the cost of insecticides). Most contacts indicate that returns for MY2005 should be higher, with better yields and improved prices.

Small farmers in Paraguay have few production alternatives. Sesame seed, which expanded in acreage, also suffered from the drought and a significant drop in price. There are not many cash crops as profitable as cotton for farmers who work manually (only 5 percent of the acreage is worked with motorized machinery/equipment).

The private sector presented a plan to the government to improve farmers' productive efficiency and increase acreage and returns. The current problems of most small producers are low density of plants per hectare, lack of fertilization, soil erosion, and poor management in general. Contamination with plastic and jute is also a key issue that needs to improve. This plan basically includes the need of providing farmers with a "production kit" which includes seed, insecticides, and enough cotton bags for its total harvest. Its provision would be financed by a tax on lint exports (about US$20 per ton). The program also proposes the government set a minimum price for cotton to encourage farmers to expand acreage. This program would be accompanied by a strong extension campaign in order to change farmers' current way of production. If the government finally approves this program, it would have an impact on the MY2006 crop. The financing of the MY2005 is still doubtful, but private sources indicate that, in one way or another, funds always appear. The government usually provides help with seed (enough seed for roughly 40-50,000 hectares was not sown in the past season and would be available for the next one). Gins and cotton buyers also provide some inputs, and in a few cases cash.

Production in MY2004 will finally be lower than earlier projected, as planted area was down due to low prices and flooding during the sowing period. Then a dry period during February through mid-April impacted yields severely.

There were 19 gins operating in MY2004. These are in hands of 9 companies, of which the first two account for approximately 70 percent of total raw cotton purchases.

Domestic consumption in MY2005 is forecast at 7,000 tons, somewhat higher than the past few years. A few local textile mills are exporting good quality fabric primarily to Argentina.

SECTION II. STATISTICAL TABLES

PSD Table

Country **Paraguay**

Commodity **Cotton** (HECTARES)(MT)

	2003	Revised	2004	Estimate	2005	Forecast
	USDA Official [	Estimate [	DA Official [	Estimate [	DA Official [	Estimate [
Market Year Begin		08/2003		08/2004		08/2005
Area Planted	0	0	0	0	0	0
Area Harvested	280000	280000	240000	215000	0	250000
Beginning Stocks	21773	25313	28087	31513	18289	14013
Production	109952	110000	65318	64000	0	92000
Imports	0	0	0	0	0	0
MY Imp. from U.S.	0	0	0	0	0	0
TOTAL SUPPLY	131725	135313	93405	95513	18289	106013
Exports	98195	98300	68584	75000	0	80000
USE Dom. Consumption	5443	5500	6532	6500	0	7000
Loss Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumptic	5443	5500	6532	6500	0	7000
Ending Stocks	28087	31513	18289	14013	0	19013
TOTAL DISTRIBUTION	131725	135313	93405	95513	0	106013